ELECTRIC & GAS INDUSTRIES ASSOCIATION

ADDITIONAL COMMENTS

IN SUPPORT OF

ENERGY STAR HOME IMPROVEMENT FINANCING

INTEREST RATE BUY-DOWN PROGRAM PROPOSALS

1166-04 (PG&E) and 1168-04 (SCE)

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January 16, 2003

ENERGY STAR HOME IMPROVEMENT FINANCING
INTEREST RATE BUY-DOWN PROGRAM
1166-04 (PG&E) and 1168-04 (SCE)

The Electric & Gas Industries Association (EGIA) submits the following additional information in support of its proposals for the Energy Star Home Improvement Financing Interest Rate Buy-Down Program. EGIA originally submitted four proposals, one for each IOU territory. These proposals are identified by Energy Division Proposal Reference Numbers: 1166-04 (PG&E), 1168-04 (SCE), 1170-04 (SCG) and 1171-04 SDG&E).

In Decision 03-12-060 "Interim Opinion Adopting Funding For 2004-05 Energy Efficiency Programs and Studies", the Commission directed staff to re-evaluate all proposals that received primary scores of 60 points or more. Paul Clanon's letter dated January 7, 2004 identified two of EGIA's four proposals as meeting this primary score threshold. The following comments are submitted in support of the two qualifying proposals; 1166-04 (PG&E) and 1168-04 (SCE).

While proposals 1166-04 (PG&E) and 1168-04 SCE) initially made the 60-point cut off, staff declined to recommend funding for the following reasons:

- Poor performance in prior funding cycle
- Staff questions the efficacy of interest-rate buy-down programs in promoting energy efficiency and believes a simple conventional rebate-type program is more desirable
- Low secondary score primarily due to concerns with reasonableness of the budget and costs
- Limited amount of available PGC funding

Since staff provides no additional visibility into the proposal scoring process or specific scoring information in the seven primary and five secondary scoring categories, EGIA's comments will be limited and directed towards addressing staff's stated reasons for declining our proposals, listed above.

1.) Poor Performance In Prior Funding Cycle

EGIA acknowledges that our current program has not generated the anticipated results. Though we believe this is due in part to external factors (discussed in greater detail, below), we have identified a number of complexities within the design of our current program that have created contractor confusion and implementation hurdles. Having identified those obstacles to contractor participation, we have modified our 2004-05 proposals accordingly.

The most notable modification is the replacement of the complex and cumbersome "tiered" incentive with a far more user-friendly "static" approach. For example, a contractor will no longer have to understand how to apply the four different incentive levels of a qualifying air conditioner, depending on the customer's climate zone and HVAC unit efficiency. Under our new proposal, a qualifying air conditioner receives one level of incentive. This significant program modification will address the most common complaint we heard from contractors – that our current program was too hard to understand.

Any discussion of program shortcomings would be incomplete without a candid discussion of the external factors that have had a detrimental impact on our ability to maximize program effectiveness. Since Energy Division Staff raised the issue of "poor performance in prior funding cycle", as a reason for denying continuation of EGIA's Interest Rate Buy-Down Program, I feel compelled to address this perception head on.

The following is a synopsis of a few of the more significant external factors impacting program performance. The issues outlined are characterized by unforeseen delays and miscommunication that arose during the start-up phase of our current program.

A.) <u>The "Hurry-Up-And-Wait" Nature Of Program Start-Up Damaged Confidence In EGIA And CPUC Third-Party Programs</u>

On April 4, 2002, EGIA was identified in the ALJ's Draft Decision as one of the project proponents selected for the 2002-2003 program cycle. As a result, EGIA immediately began contacting our manufacturer, distributor and contractor network to notify them of the Draft Decision and let them know that the Commission would be making a final decision by the middle of May 2002.

When the Commission approved and adopted the Draft Decision at their May 16 meeting, included in their "Summary of Important Dates and Deadlines" was the bolded notation that contracts would be signed and programs commence on "June 1, or as soon as Plans are approved". Accordingly, EGIA began in earnest conducting numerous regional training meetings with contractors and distributors across the State, to assure the program got off to a quick start and was up and operational to take advantage of the critical peak summer cooling season.

EGIA also began meeting with distributors and manufacturers regarding the opportunity to develop cooperative marketing materials and co-op advertising in support of the program. These initial discussions generated significant interest, as the contractors, distributors and manufacturers all viewed the program as something that would positively impact summer sales.

For numerous reasons with which the Commission is far too familiar, the launch of the third-party programs was repeatedly delayed. Each of these delays forced us to go back to the HVAC community with a new anticipated start date, only again to not have the target launch date met.

Eventually, given the repeated delays and active opposition to the third-party programs by the IOU's, each of whom were communicating with retailers, contractors, distributors and manufacturers regarding their own programs, the HVAC community began to question whether the third-party programs would ever be launched. By the time EGIA had reasonable certainty that the programs would actually begin in the fall of 2002, we had gone back to the HVAC community so many times with "anticipated" start dates that we were told they weren't interested in devoting any time discussing our program until it was fully up and operational.

Not only was the time and effort expended during the spring/ summer of 2002 preparing the marketplace for the availability of our program for naught, ultimately it ended up hurting our program launch efforts. Once the program was finally available, EGIA had to expend considerable effort to repair damaged credibility before industry-wide interest could be renewed.

B.) <u>Gaining Program Acceptance In The Marketplace Proved Tougher Than Anticipated, Due In Part To The Opposition Posed By Some IOU's</u>

As discussed above, the success of EGIA's program was largely dependant on our ability to get contractors and distributors to embrace it. At the same time we were trying to convince the HVAC community not to give up hope on the third-party process, they were hearing through other channels that the IOU's were prepared to formally challenge the entire process. In fact, several major distributors and long-term EGIA members informed us that they had been told that if the third-party contracts were found to be invalid, consumers who had received a benefit through these programs would be forced to repay their benefit. As a result, a number of high-volume contractors told us that their early program participation simply wasn't worth the risk.

To further exacerbate the program launch difficulties, a notice from the Southern California Gas Company's "Home Energy Upgrade Financing Program" went out to contractors participating in their program (see attached). The notice warned contractors not to, "switch to any other financing." Those that did were faced with, "a repurchase of the financing and a revocation of your approved status with the League of California Homeowners. It also puts you at risk of violating certain statutes governing your business practice."

As one might imaging, the prospect of having customers forced to repay incentives, finance contracts repurchased, approved contractor status revoked and violations of business laws reported, made it difficult and risky for many southern California contractors to participate in the EGIA program, even though the EGIA program provided greater consumer benefits.

C.) EGIA's Original Program Estimates Were Dependant Upon Capturing the 2002 Cooling Season

On December 19, 2001, in preparation for submitting our 2002-03 program proposals, EGIA attended a workshop conducted by CPUC staff. At the workshop, staff was asked to define the overall timeline for the 2002-03 Energy Efficiency Programs. The answer, distributed to all interested parties in an email of December 28, 2001 stated, "For programs funded for two years, the programs will run from whenever they start in 2002 (potentially in April 2002) through December 31, 2003." Therefore, when EGIA prepared the budget, energy savings and contractor participation estimates for our program, it was expected that the HVAC financing program would start prior to the summer of 2002.

The availability of the program during the summer of 2002 was a critical factor in the projections made for the effectiveness of our program. Unlike informational- only and general marketing/ outreach programs and the traditional home appliance and lighting rebates, HVAC programs are severely seasonally impacted.

EGIA's HVAC Interest Rate Buy-Down Program achieves most of its cost effectiveness through energy savings resulting from the replacement of central air conditioners. The sales window for air conditioners was effectively cut in half by the delayed start of the program. So, instead of a two-year program, delayed start-up essentially has relegated this to a one year program

Additionally, EGIA was counting on availability of the low interest rate financing during the competitive summer months to drive early contractor participation in the program. Had EGIA anticipated that the program was not going to begin until the last week of September 2002, we would have dramatically altered our program budget, energy savings and participation estimates.

EGIA takes pride in its long history of successfully implementing many of California's largest and most comprehensive utility sponsored residential energy efficiency rebate and appliance dealer/ contractor field services programs. Additionally, in the area of financing, EGIA has emerged as a respected market leader providing utility companies, manufacturers, distributors and contractors with highly competitive financing alternatives to accelerate business investment in their energy efficient and renewable energy solutions.

EGIA's has developed preferred and diversified financing relationships with many of the nations leading financial institutions, enabling EGIA to provide utility and customer-tailored low cost financing for virtually all residential and business energy efficiency and renewable energy projects.

Over the past two years alone, EGIA has provided more than $100 million in resource efficiency and renewable energy financing to homeowners and businesses throughout California. EGIA's portfolio of financing programs includes: *Resource Efficiency Home Improvement Financing*, *Residential Renewable Energy Financing*, *Business Energy Efficiency and Renewable Financing*, *Local Government Efficiency and Renewable Project Financing*, in addition to the CPUC High Efficiency HVAC Interest Rate Buy-Down Program.

We know how to implement successful programs and know what it takes to mobilize a network of contractors, distributors and manufacturers as diverse as those within the HVAC community. Despite early setbacks in launching our current program, EGIA has effectively overcome the numerous delays and miscommunication that plagued program start-up. Over the past several months we have seen a significant increase in contractor participation, tens of thousands of dollars in co-op advertising pumped into the program by contractors and distributors and a substantial increase in consumer loan inquiries and applications.

EGIA's current financing program is rapidly building momentum with a steady increase in homeowner participation. Participating contractors have invested substantial time and financial resources in the training and education of their sales force. They have invested in advertising and promotion of the program and have fully incorporated the program availability and customer benefits into their sales process.

Additionally, a few months ago EGIA launched an extensive consumer direct marketing campaign. Without using a penny of PGC funds, we are driving hundreds of consumer inquiries into our program, many of which have already turned into funded loans for high efficiency product. We now fund monthly nearly the same number of loans we funded in the first five months of the program combined.

2.) Staff Questions The Efficacy Of Interest-Rate Buy Down Programs In Promoting Energy Efficiency And Believes A Simple Conventional Rebate-Type Program Is More Desirable

The existing statewide Single-Family Energy Efficiency Rebate Program for high efficiency central air conditioning and furnaces, by itself, is inadequate in addressing the significant energy consumption and peak demand reduction potential that exists within the residential market. Staffs statement questioning "the efficacy of interest-rate buy down programs in promoting energy efficiency" and their belief that "a simple conventional rebate-type program is more desirable" is misguided and reflects a lack of understanding of the prevailing market dynamics and consumer buying behavior impacting the purchase and installation of high efficiency HVAC equipment.

Within the residential market, air conditioning has the single greatest impact on peak demand, with residential space conditioning in general being the largest contributor to home energy bills. Nearly 400,000 central air conditioning units are replaced in California each year, yet fewer than 20,000 are high efficiency replacements receiving utility rebates. This represents less than 5% of the annual replacement market for central air conditioning. The Commission should be alarmed at this historical deficiency in program performance and instead of eliminating low interest financing as an alternative should bolster the portfolio of HVAC directed programs and increase the allocation of PGC funds to this under-addressed market.

A disproportionate amount of the PGC funds allocated for 2004-05 energy efficiency programs are being directed towards low cost measures such as lighting replacement, general consumer awareness and targeted education and training. These are clearly important elements of a comprehensive portfolio of programs, but should be balanced against the need for sustained investment in transforming California's inefficient stock of residential air conditioning.

Due to the long "useful life" of central HVAC equipment, which can be twenty years or longer, it's critical that high efficiency equipment is installed upon replacement. Failure to maximize the number of high efficiency units installed annually throughout California, results in substantial lost opportunity and increased peak demand and energy consumption for years to come.

A highly misunderstood fact influencing residential consumer buying behavior regarding the purchase of high efficiency HVAC is that, due to the high cost of HVAC replacement *(typically $5,000 - $6,000 for a standard efficiency central system and $7,500 - $9,000 for a high efficiency system)*, most homeowners require financing of their

HVAC retrofit. Conservative estimates from EGIA market data and input from home improvement contractors throughout California indicate that well over 50% of all residential HVAC installations require financing. Many HVAC contractors believe this number is as high as 75%. An exact percentage is hard to determine because homeowners typically draw down an existing home equity loan, use a credit card with an open balance or seek out new sources of financing to fund their project.

While rebates are effective for cash buyers or homeowners with ready access to capital, they provide little inducement for homeowners requiring financing. Offering HVAC rebates alone fails to capitalize on the opportunity to reach out and influence the purchase decision of the ten of thousands of California homeowners that annually require financing of their HVAC retrofit.

Another overlooked and highly misunderstood market dynamic is that, due to the high cost of HVAC replacement, most home improvement contractors sell based on monthly costs. What this means is that contractors typically promote the lowest cost alternative in order to "close the deal". While it's true that during their sales presentation, the most effective contractors discuss the environmental, safety, energy efficiency and added comfort features of high efficiency products, they know that in the end, the majority of customers will opt for the lowest total cost solution.

The following Table *"Customer Benefits of Interest Rate Buy-Down Verses Rebates for Customers Financing Residential HVAC Equipment"* illustrates the added customer value of a financing program utilizing PGC funds to buy-down the interest rate compared to standard financing with and without first applying a customer rebate using the same amount of PGC funds. This example is based on the comparative impacts of the $625 of PGC funds currently provided as a rebate under the Statewide Single Family

Energy Efficiency Program, applied instead to reduce the customer's interest rate on an unsecured residential energy efficiency loan.

<u>CUSTOMER BENEFITS OF INTEREST RATE BUY-DOWN VERSES REBATES FOR CUSTOMERS FINANCING RESIDENTIAL HVAC EQUIPMENT</u>

	(A) **Customer Financing Standard Efficiency Equipment** **(No Incentive)**	**(B)** **Customer Financing Efficient Equipment** **($425 A/C & $200 Furnace Rebate Applied to Principal Cost of Loan/ No Interest Rate Buy-Down)**	**(C)** **Customer Financing Efficient Equipment** **(Rebate Saved & Invested at 4% Rate of Return/ No Principal Reduction/ No Interest Rate Buy-Down)**	**(D)** **Customer Financing Efficient Equipment** **(Interest Rate Buy-Down/ No Rebate)**
Credit Score	690	690	690	690
Product Type Air Conditioning Furnace	Split System: 10 SEER Furnace: 80 AFUE	Split System: 14SEER Furnace: 90 AFUE	Split System: 14 SEER Furnace: 90 AFUE	Split System: 14 SEER Furnace: 90 AFUE
Rebate/ Buy-Down Cost to PGC		$625	$625	$625
Amount Financed	$5,800.00	$7,175.00	$7,800.00	$7,800.00
Interest Rate	12.75%	12.75%	12.75%	7.5%
Loan Term In Months	120	120	120	120
Monthly Financing Payment	$85.75	$106.08	$114.17	$92.59
Monthly Energy Savings	N/A	($11.00)	($11.00)	($11.00)
Net Monthly Customer Cost	**$85.75**	**$95.08**	**$103.17**	**$81.59**
Net Cost of Loan (120 months)	$10,290.00	$11,409.60	$12,380.79	$9,790.80
Value of $625 @ 4% for 120 months	N/A	N/A	$925.00	N/A
Net- Net Customer Cost	**$10,290.00**	**$11,409.60**	**$11,455.79**	**$9,790.80**

This example indicates that for the majority of homeowners that require financing, the application of PGC funds to buy-down the interest rate provides a far greater consumer value and more efficient use of PGC funds than the same amount attributed in the form of a rebate.

Unfortunately, in the absence of a low-interest financing program, many home improvement contractors will continue to sell the lower cost inefficient solution, not even mentioning the availability of an energy efficiency rebate. Conversely, contractors are highly motivated to direct homeowners to the interest rate buy-down option, as it results in an immediate reduction in monthly cost and creates a competitive marketing opportunity.

The combination of offering homeowners a choice of either an interest rate buy-down if they need financing or rebates for cash buyers is required to assure maximum customer participation. This combined approach, will result in a significantly higher penetration of high efficiency residential HVAC equipment installed within the California market.

The Commission should not misinterpret the slow start to the EGIA HVAC Interest Rate Buy-Down Program as an indication of lack of effectiveness, market demand or impact in influencing customer buying decisions. A program the magnitude of EGIA's multi-utility financing program, requiring the mobilization of a channel as diverse as home improvement contractors, needs adequate time to evolve, certainly more than one summer period.

As one of the original architects of California's energy efficiency rebate programs, while Director of Energy Efficiency Services for PG&E in the 80's and early 90's, I know first hand the complexities of launching innovative new programs that require mobilization of third-party delivery channels and the challenges associated with rapid development of widespread consumer acceptance. Had the Commission prematurely walked away from the early rebate programs because market acceptance didn't materialize as rapidly as forecasted, California would not now have the nation's leading portfolio of programs and a significant lost opportunity would have ensued over the years.

A.) Home Improvement Contractors Speak-Out In Support Of EGIA's Program

EGIA communicates regularly with nearly 1000 appliance retailers and home improvement contractors across California through our "Weekly Update" newsletter. Over the past month, we have updated our contractor network of the pending CPUC decision to discontinue the High Efficiency HVAC Interest Rate Buy-Down Program. As a result, we have been inundated with an outpouring of letters expressing contractor concern over program termination, as well as letters describing how the program is positively impacting sales of high efficiency equipment and the positive effect the program has on influencing consumer buying behavior.

The following contractor quotes embody the sentiments of numerous contractors and distributors throughout the State. We have attached copies of the full text of the letters from which the following quotes are attributed. Attaching all letters received over the past month alone, would be too cumbersome.

> **"Simply put, the high efficiency HVAC interest rate buy-down program is the most effective tool we have ever seen in helping consumers to replace old and inefficient systems with high efficiency systems. Why? The primary reason is that most consumers, and particularly those with the least efficient systems, need financing to afford this investment. Our experience over the past 18 months is that 63% of our customers relied on financing to replace**

their existing HVAC system! For these consumers, rebates were not nearly as effective of an incentive as the buy-down program in encouraging consumers to switch to energy efficient systems. Furthermore, most consumers would avoid replacement as long as possible without such financing"

"Certainly in California there are a significant percentage of people who can afford to pay cash for a high efficient $8,000 HVAC system. However, many of these residents are not in the market for new systems as they often live in comparably newer homes with relatively efficient systems. By comparison, the target market- that being older homes with inefficient systems- has a higher amount of consumers who need affordable financing"

- Your Energy Source
Rancho Cordova, CA

"It amazes me the leads this program is bringing in during a time frame where normally people are not thinking about changing their equipment. This program has brought a whole new type of customer to us. In the past people who buy high efficiency equipment were usually people who could afford to pay cash for the equipment. With this program, we are selling high efficient equipment to the average working family who would normally repair their old equipment instead of replacing it with high efficiency"

"We have always sold high efficient air conditioning systems because of our climate…. Now we are selling high efficient heating systems as well. The large out of pocket expense to buy a high efficient heating system usually pushed people to standard efficiency. With the low monthly payments, now people can afford to buy high efficient heating as well"

- Desert Air Conditioning, Inc.
Palm Springs, CA

"This buy-down program has been one of our strongest marketing features in convincing customers to purchase energy-efficient equipment and has been a main factor in our increasing sales. With their instant pre-approvals, EGIA makes it easy for us to quickly give our customers the information they need to make a good decision"

- American Air Conditioning,
Manteca, CA

"We service an area of older homes and customers that don't always have the means to pay cash for new systems. With the buy-down program we are able to offer our customers a very real option of purchasing high-efficiency HVAC equipment for about the same payment as much less efficient equipment. When coupled with the increased energy savings, our customer's will usually select the higher efficient equipment. In summary, before the buy-down program we would only sell a few efficient systems per month. We have added extra personnel to help with estimating and installations and have launched a successful marketing campaign to increase our sales using the buy-down program as a focus"

- AVIS Air Conditioning, Inc.
San Bernardino, CA

3.) Low Secondary Scores Primarily Due To Concerns With Reasonableness Of The Budget And Costs

Unfortunately, the vague nature of this concern limits the effectiveness of our response, as we are left to surmise what staff's concerns are. That being said, however, we believe that staff must not have understood the unique opportunity this program affords the CPUC to only pay for results.

A.) Pay for Performance

Consistent with our current program, what we have prepared and submitted for the 2004-05 cycle is a “Pay-For-Performance” proposal. With the exception of a minimal marketing budget added for the 2004-05 program, dedicated to leveraged consumer outreach with community interest groups, EGIA’s budget does not expend any PGC funds without a qualified high efficiency product being installed.

Unlike virtually every other program awarded by the CPUC in this round, EGIA’s proposal does not include a penny for fixed administration or overhead. Administrative costs are only recovered in the form of a per unit fee charged when a loan funds and qualified product is installed. This is in stark contrast to the myriad of rebate and other incentive programs that have high overhead expenses regardless of the number of incentives processed.

To put this unique program design feature into perspective, EGIA receives and responds to numerous consumer and contractor program inquiries on a daily basis, provides ongoing training to participating contractors, executes an aggressive outreach program to attract new contractors, performs application screening, initial consumer credit checks and follow-up, all without any fixed cost coverage of expenses. Only after a loan is funded and qualifying equipment is installed do we recover any of our cost.

This “Pay-For-Performance” structure assures that PGC funds are only expended when results are achieved.

C.) Leveraged Marketing

In implementing the current financing program and as proposed in our 2004-05 program, EGIA executes a highly leveraged and integrated marketing plan. We are able to capitalize on the unique marketing & service relationship we have developed over the past decade with contractors, distributors and retailers throughout California.

EGIA currently is in weekly contact with hundreds of leading contractors/ distributors around the State regarding a verity of energy efficiency and renewable energy initiatives, including the CPUC financing program. EGIA Regional Field Service Representatives conduct frequent training sessions on the current CPUC financing program and other initiatives. We teach contractors and their sales personnel how to use financing to up-sell consumers into high efficiency products.

EGIA also leverages private sector advertising dollars from HVAC and home improvement contractors and distributors and engages local government and community based organizations (CBO) in utilizing their established communication channels to reach out to their "hard-to-reach" constituencies. This highly cost efficient and leveraged marketing strategy enables EGIA to minimize the expenditure of PGC funds while generating significant market demand.

4.) Limited Amount Of Available PGC Funding

EGIA recognizes the difficult task that the Commission has in allocating available PGC funds to assure a balanced portfolio of energy efficiency programs that: maximize energy savings, reduce peak demand, have strong cost effectiveness, provide for diversity of target markets and assure equity between gas and electric program offerings. EGIA believes that continuation of a HVAC financing alternative is essential in order for the Commission to achieve its stated objectives.

Discontinuation of the only CPUC sponsored financing program fails to recognize the need for low interest residential energy efficiency financing and the significant market barriers that exists for the vast majority of homeowners purchasing high efficiency space conditioning equipment.

Eliminating HVAC financing now would also further exacerbate the historical lack of program equity and focus on residential space conditioning, which represents the single greatest area of impact in reducing peak demand within the residential market. To terminate this program, just as it is ramping up and without even allowing the program to be marketed through two summer periods, will negatively impact homeowners and alienate the home improvement contractor community.

Many contractors have already expressed concern over the lack of CPUC program continuity and stability. Premature termination of EGIA's HVAC financing program will likely create irreparable damage to participating contractors, many of which have invested heavily in this program.

While EGIA believes that low interest HVAC financing is a critical element of a balanced and effective CPUC program portfolio, we recognize that PGC funds many not be available to fund all of EGIA's low interest HVAC financing proposals.

At a minimum, the Commission should approve funding for proposal 1166-04 (PG&E). This would at least enable the program within PG&E's service territory (where our current program has been most widely embraced) to run through another summer period. By extending this program, the Commission will leverage the significant program momentum that has been established, maintain program continuity for the majority of contractors participating in the existing program, meet a growing consumer need and allow for an objective evaluation of the impact of HVAC financing programs as a complement to traditional rebates. This is a sound approach and will drive investment in high efficiency residential HVAC by the tens of thousands of California homeowners that annually require financing of their replacement space conditioning equipment.

EGIA appreciates the opportunity to provide additional comments in support of our Energy Star Home Improvement Financing Interest Rate Buy-Down Program proposals 1166-04 (PG&E) and 1168-04 (SCE) and hopes that the Commission and its staff seriously consider their merits.

Respectfully Submitted,

Bruce Matulich

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Bruce Matulich
Executive Director
Electric & Gas Industries Association

Your Energy Source

December 10, 2003

Mr. Bruce Matulich
Electric & Gas Industries Association
3800 Watt Ave., Suite 105
Sacramento, CA 95821

Re: CPUC Hearing on Funding for 2004-05 Energy Efficiency Programs

Mr. Matulich:

As a heating and air conditioning contractor, our focus is on environmentally friendly and high efficiency residential installations. Over the past eighteen months we have also worked with the State's High Efficiency HVAC Interest Rate Buy-Down Program and we wanted to share our experience and insights about the effectiveness of this program.

Simply put, the high efficiency HVAC interest rate buy-down program is the <u>most effective tool we have ever seen</u> in helping consumers to replace old and inefficient systems with high efficient systems.

Why? The primary reason is that most consumers, and particularly those consumers with the least efficient systems, need financing to afford this investment. Our experience over the past 18 months is that <u>63% of our customers relied on financing</u> to replace their existing HVAC system! For these consumers, rebates were not nearly as effective of an incentive as the buy-down program in encouraging consumers to switch to energy efficient systems. Furthermore, most consumers would avoid replacement as long as possible without such financing.

What this means is that without affordable financing, we are literally leaving our worst energy using systems in place because they still work, regardless of the operating costs. With low interest rate financing, however, the worst energy abusers are able to finance their new systems because of the tremendous utility cost savings. We have even seen some customers whose energy bill has gone down by more than their monthly financing! Now that is a prudent investment.

Certainly in California there are a significant percentage of people who can afford to pay cash for a high efficient $8,000 HVAC system. However, many of these residents are not in the market for new systems as they often live in comparably newer homes with relatively efficient systems. By comparison, the target market- that being older homes with inefficient systems- has a higher amount of consumers who need affordable financing.

Consider for example many of our senior citizens, some of whom have lived in the same home for decades and are living on fixed incomes. These are retired people on fixed incomes who are at home most of the time and might run their systems all day long. These are people who are operating HVAC systems with very low efficiencies, and the only way they can afford to replace this unit is with low interest rate financing.

There is no question that heating and air conditioning comprises one of the largest components of energy usage, if not the largest. It is also clear that population will continue to significantly outgrow energy production in the state for the foreseeable future. Clearly we need to continue to encourage energy conservation, and the best way to do that is to make it affordable for individual consumers to replace their low efficient HVAC systems.

Without such incentives, particularly low interest rate financing, older inefficient systems will remain in place until they cease to work. And for those that are forced to replace their old systems, they will look to less energy efficient systems as a result of their reduced up-front costs in spite of higher operating costs!

In summary, it is our opinion that the High Efficiency HVAC Interest Rate Buy-Down Program is an essential component of California's program to reduce its energy demands, one system at a time, with decades of benefit.

Please share this information with the CPUC as it considers extending this program.

Sincerely,

Kevin Smith
Your Energy Source

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January 9, 2003

EGIA
Attn: Bruce Matulich
3800 Watt Avenue Suite 105
Sacramento, CA 95821

Dear Mr. Matulich:

This letter is to thank you for having such a wonderful program. We are new to the program signing on about 2 months ago. It amazes me the leads this program is bringing in during a time frame where normally people are not thinking about changing their equipment.

This program has brought a whole new type of customer to us. In the past, people who by high efficient equipment were usually people who could afford to pay cash for the equipment. With this program, we are selling high efficient equipment to the average working family who would normally repair their old equipment instead of replacing it with high efficiency.

The feed back I am getting from these customers is a cash rebate is nice but does no good if they can not afford to buy the equipment in the first place. This is why they appreciate the interest rate buy down program.

Most of our customers who are participating in this program will have higher utility savings then the cost of the monthly payments for the new high efficient equipment. This makes upgrading to a high efficient system a no brainer in most cases.

We have always sold high efficient air conditioning systems because of our climate. However, with this system now we are also selling high efficient heating systems as well. The large out of pocket expense to buy a high efficient heating system usually pushed people to standard efficiency. With the low monthly payments, now people can afford to buy high efficient heaters as well.

Once again, thank you for a great program. We look forward to it continuing.

Sincerely,

Todd Shaw
Service Manager

Received Time Jan. 12. 10:17AM

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January 15, 2004

Bruce Matulich
Electric & Gas Industries Association
3800 Watt Avenue, Suite 105
Sacramento, CA 95821

Dear Mr. Matulich,

American Air Conditioning has been a customer of EGIA's for approximately one year. In that year, EGIA has helped us provide loans for many of our customers. Thanks to the CPUC sponsored program, many consumers who could not afford to buy high-efficiency equipment and pay their gas and electric bill were able to purchase much needed HVAC systems. This buy-down program has been one of our strongest marketing features in convincing customers to purchase energy-efficient equipment and has been a main factor in our increasing sales. With their instant pre-approvals, EGIA makes it easy for us to quickly give our customers the information they need to make a good decision. And when consumers see the low financing rates, along with their projected savings on monthly energy bills, this opportunity becomes difficult to pass up. This is a wonderful program and we would very much like to continue offering it to our customers throughout the next year.

Sincerely,

Cindy S Schone

Cindy S. Schone
Manager

Lic. #630503
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★ AIR CONDITIONING, Inc.
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December 31, 2003

Bruce Matulich
Electric & Gas Industries Association
3800 Watt Avenue Suite 105
Sacramento, CA 95821

RE: EGIA / CPUC HVAC Financing Program

Dear Mr. Matulich,

We have been affiliated with EGIA for over 2 years. We have found the Home Energy Upgrade Finance Program a big help in assisting our customers afford replacing old, inefficient HVAC systems.

When the CPUC sponsored program came out we had a new tool in promoting high-efficiency equipment. We service an area of older homes and customers that don't always have the means to pay cash for new systems. With the buy-down program we are able to offer our customers a very real option of purchasing high-efficiency HVAC equipment for about the same payment as much less efficient equipment. When coupled with the increased energy savings, our customer's will usually select the higher efficient equipment.

EGIA has made the entire process a pleasure. Usually a new PUC program is somewhat confusing with little or no support. EGIA has helped with in-person training sessions, on-line loan documents and processing along with a knowledgeable staff to help us quickly place the loans.

In summary, before the buy-down program we would only sell a few high efficient systems per month. Using the buy-down program, we are able to offer our customers a great incentive to upgrade to a high-efficient system for about the same payment as a standard system along with allowing them to realize a dramatic energy savings at the same time. We have added extra personnel to help with estimating and installations and have launched a successful marketing campaign to increase our sales using the buy-down program as its focus.

I would appreciate if the CPUC would consider extending the buy-down program. As a contractor we have finally found a genuine way to market quality high-efficient HVAC equipment to the people who really need it.

Sincerely,

Ed Ballard

Ed Ballard
President

Our Family Tradition Since 1947

877-AVIS AIR

Volume 1, Issue 3

THE SOUTHERN CALIFORNIA GAS COMPANY SPONSORED HOME ENERGY UPGRADE FINANCING PROGRAM (HEUF)

HEUF NEWS

▪ DON'T GET CAUGHT UP IN A "BAIT AND SWITCH"

We've had a few contractors advise us that another Fannie Mae lender is pitching their financing as Gas Company approved. We are the only Fannie Mae lender under the Gas Company's HEUF program. Our agreement with the Gas Company affords customers valuable quality control and remedial services in the finance process. Customers expect this in connection with the Gas Company sponsored program.

Don't pitch Gas Company sponsored financing (or sit back, knowing that's what a customer thinks they're getting) and switch to any other financing.

From the customers perspective, this is a misrepresentation and could subject you to a re-purchase of the financing and a revocation of your approved status with the League of California Homeowners. It also puts you at risk of violating certain statutes governing your business practice.

Please advise your VIEWtech sales representative if any lender is misleading you on the HEUF program.

▪ GAS COMPANY SPRING ADVERTISING TO START SOON

The Southern California Gas Company will soon start up their spring advertising campaign. This will include a flyer on the financing program directly inside the gas bill. This flyer goes out to all residential homes in the Gas Company territory. Check your upcoming gas bills for this flyer.

▪ VOLT VIEWTECH ANNOUNCES NEW DEALER WEBSITE

Volt VIEWtech now has a dealer website (**http://dealersite.voltviewtech.com**) were you can review all applications, approval letters, check status, pending loan conditions as well as send new finance applications online. Call today to get your code and password!

Thanks to all of you that responded to our recent Contractor Survey. Based on your response new features and programs will be coming soon!

If you have any questions or comments please feel free to contact Tim McFarland at (714) 240-2510 .